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Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

28 February 1983

The Hukuang Railway Bonds

Summary

This memorandum addresses the questions contained in State outgoing 049362 of 23 February 1983, "Hukuang Railway Bonds: Request for Background Information," and contains an appendix providing additional details on the background of the Hukuang Bond issue. [redacted]

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A. Were proceeds of bond issue in fact used to construct Hukuang (i.e., Beijing-Canton) railway? [redacted]

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The Beijing-Hankou section of the Beijing-Guangzhou railroad was completed with Belgian funding in 1905. The Hankou-Guangzhou section of the railroad, which was supposed to be funded by the Hukuang bond issue, was completed between 1935 and July 1937. Provincial Chinese authorities completed the southern portion (Guangzhou-Shaoguan) of the Hankou-Guangzhou railway in 1915; the northern section (Wuchang-Zhuzhou) was finished in 1918 probably with local financing. The remaining central section of the Hankou-Guangzhou railroad was completed between 1935 and 1937 by the Chinese Nationalist government. Funding for completion of the central section came from proceeds of new loans floated in the London market and from the British portion of the Boxer

This memorandum was prepared by [redacted] Foreign Affairs Branch, China Division, Office of East Asian Analysis, in response to a request from Terry Fortune, Assistant Legal Adviser, State Department. Comments and questions are welcome, and may be addressed to the Chief, Foreign Affairs Branch [redacted]

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Indemnity Fund beginning in 1933. We have no evidence that proceeds from the Hukuang bond issue of 1911 were ever actually used to construct the Hankou-Guangzhou railway. Some portion of the proceeds of the bond issue apparently went into official pockets while other portions were diverted to needs created by the revolution of 1911. []

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B. What entity owned and controlled the railway when it was completed? What changes of ownership and control have occurred from the date to present? []

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The Chinese Nationalist government owned and controlled the railway, except for the period of Japanese military operations in central and south China during World War II, until 1949. In 1949 all Chinese railroads, including the Hankou-Guangzhou railway, were taken over by the Chinese Communist government and subsequently operated by the PRC Ministry of Railroads. []

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C. What portion of the original railway is still in existence? []

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The alignment and right of way are probably the only "original" portions of the railway in existence. Events associated with the war against the Japanese, with the civil war between 1945 and 1949, and the PRC reconstruction effort after 1949 probably led to replacement of most of the rail bed and rail equipment in operation in the late 1930's. []

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D. From what source were payments of interest and principal (which were paid until 1930) made? []

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Interest payments were met from year to year by the Chinese Nationalist Ministries of Communication and Finance from their general funds rather than from any specifically designated sources of revenue. After 1929 one coupon was paid each year by the Ministry of Finance out of salt revenues. After 1931 budgetary difficulties prevented any payment from either customs or salt revenues. The amounts and dates of interest payments are unknown; we are not aware of any payments of the principal. []

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E. What entity currently operates the railroad and how is that entity integrated into the Chinese governmental and economic structure? []

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The PRC Ministry of Railroad currently operates the railroad. The Ministry is subordinate to and operates under the direction of the State Council of the PRC, the principal organ for governmental and economic administration in China. []

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Appendix

Chronology on the Hukuang Railway

- 1900 - As part of a belated interest in furthering China's modernization, the Qing government planned construction of a railroad from Beijing to Guangzhou. Belgium was given the rights to build the Beijing-Hankou section, but the government wanted the Hankou-Guangzhou section built by someone other than the Belgians. The Qing government invited U. S. participation. The American China Development Company, New Jersey, an agent of American financial interests, provided a loan of 4 million pounds sterling and received concession rights from the government. Article XVII of the agreement stipulated that the company had to remain in US hands. [] 25X1
- 1902 - - July. The agreement was ratified by the Chinese.
- US rights bought out by the Belgians, fronting for French and Russian interests. US officials told the Chinese privately of this development, despite Article XVII. [] 25X1
- June 10. The US informed the Chinese that this was a private company and thus a private matter. At the same time, the State Department was pressing the company secretly to buy back the bonds. [] 25X1
- 1905 - Beijing-Hankou section of the line completed by the Belgians. [] 25X1
- J.P. Morgan induces the Belgian king, Leopold II, to sell him 1200 shares, and control reverted to US hands. [] 25X1
- Qing Viceroy Chang Chih-tung encourages local gentry to push for Chinese control of the railroad and express dissatisfaction with US control. (This was the first example of local Chinese officials protesting the granting of concessions of this type.) [] 25X1
- February. US-China negotiations begin for Chinese purchase of the railroad. [] 25X1
- June 7. Agreement reached for Chinese purchase of the railroad for US \$6,750,000. Since little work on the line had been done, the agreement essentially was one for the rights to it. The Chinese leadership and the gentry were pleased since they had regained sovereignty in an unprecedented case. China borrowed

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- money for the purchase from the Hong Kong government. [] 25X1
- 6 September. Redemption agreement signed. [] 25X1
 - 9 September. Agreement on loan reached. [] 25X1
- 1905-09 - Local officials who had pushed for redemption of the railroad tried to build it with locally-raised funds. Funds were raised but most appears to have been pocketed. [] 25X1
- 1909 - Qing government stepped in to reclaim the road from local authorities. Negotiations were begun with France, Germany, and Great Britain for 5,500,000 pounds sterling to begin construction. The US government demanded participation. [] 25X1
- July. President Taft communicated personally with the Prince Regent on the issue. The loan subsequently was raised to 6,000,000 pounds and the US became a participant. [] 25X1
- 1911 - May. Willard Straight signed on behalf of the Americans, which included J. P. Morgan, Kuhn, Loeb & Co., First National Bank, and National City Bank of New York. The loan was to cover the unfinished 560 miles from Hankou to Guangzhou and a second railroad from Hankou into Sichuan. The bonds issued for the loan were to be guaranteed by revenue from the salt and likin (taxes on local trade) taxes in the provinces through which the railroad would run. [] 25X1
- July. Announcement of the agreement leads to riots and other strong local reactions. The issue was one of the main catalysts for the 1911 Revolution which broke out in October and ended Qing imperial rule. There is no evidence that the money raised was ever used on the railroad. [] 25X1
- 1915 - Southern section, Guangzhou - Shaoquan, of 139 miles completed by local authorities. [] 25X1
- 1918 - Northern section, Hankou-Quzhou, of 259 miles completed by local authorities. Central section, Quzhou-Shaoguan, of 259 miles unfinished. [] 25X1
- 1933 - Chinese Nationalist government floats new bonds in the London market and uses funds from the British portion of the Boxer Indemnity Fund to resume construction of the railroad. [] 25X1

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- 1935 - Chinese Nationalist government problems with payments on bond issue, as well as on other railroad loans, results in rescheduling discussions with lenders. [] 25X1
- Unpaid principal on the Hukuang bonds stands at 5,650,000 pounds; interest in arrears at 1,819,975 pounds. [] 25X1
- 1937 - 26 March. American bondholders accepted the latest Chinese offer. Agreement published on 4 April stipulates: [] 25X1
- Interest to be paid at the rates of 2.5% per cent per annum in 1937-1938 inclusive and 5 per cent per annum thereafter. Payment of interest to be made out of net earnings of the railroad and guaranteed out of the salt revenues. Interest due as from January 1, 1941, to be guaranteed by customs revenues. [] 25X1
- Amortization to begin in 1941 and to be completed in 39 years from 1937. Payment of amortization and of the scrip to be issued to be made out of net earnings of the railroad, and any deficiency to be made good from revenues under control of the Ministry of Finance. [] 25X1
- Interest in arrears to be calculated at 2 per cent annum simple interest, instead of 5 per cent. Noninterest-bearing scrip to be issued from arrears of interest so calculated and also for one-fifth of interest unpaid during 1937-1938. This scrip to be paid beginning in 1942 over approximately 20 years, the annual installments to be substantially equal, except that the government reserved the right of transferring to the last three years of the aforementioned period not over 50 per cent of payments due in the first three years. [] 25X1
- Thus, bondholders renounced 1,455,885 pounds sterling in interest in arrears, and reduced half of the interest for 1937 and 1938, amounting to 280,000. Total of 1,735,885 pounds. [] 25X1
- 1937 - July. Last section of Hankou-Guangzhou railroad completed. [] 25X1
- Current status: In 1949, when the present government came into power, it renounced the Hukuang bonds and other obligations as "odious debt", wherein a revolutionary regime, after overthrowing a previous regime, refuses to assume such debts. The PRC reiterated this position in the aide memoire presented to the US on 3 February 1983. [] 25X1

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